

Message Text

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16

ACTION EA-14

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INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00

XMB-07 OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 CEA-02

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R 020158Z AUG 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3788

INFO AMCONSUL BRISBANE

AMEMBASSY LONDON

AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

AMEMBASSY TOYKO

AMEMBASSY WELLINGTON

UNCLAS CANBERRA 5002

EO 11652: NA.

TAGS: EFIN,AS.

SUBJECT: BALANCE OF PAYMENTS: FIRST AUSTRALIAN DEFICIT IN
SEVEN YEARS.

1. AUSTRALIA IN FY74 RAN ITS FIRST BOP DEFICIT IN SEVEN
YEARS AND ITS BIGGEST IN 22 YEARS, ACCORDING TO AUSTRALIAN
BUREAU OF STATISTICS (ABS) QUARTERLY SUMMARY RELEASED
JULY 31. AS MEASURED BY NET MONETARY MOVEMENTS DEFICIT
WAS \$A678 MILLION (\$A EQUALS \$US1.4875) COMPARED TO
FY73 SURPLUS OF \$A981 MILLION, A TURNAROUND OF \$A1,659
MILLION. BUT LEVEL OF RESERVES AS OF JUNE 30 REMAINS
COMFORTABLE AT \$A3,673 MILLION, A \$A658 MILLION (15 PCT.) FALL
FROM YEAR PREVIOUS.

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2. BIG SWING IN OVERALL BOP MAINLY TRACEABLE TO \$A1,372 MILLION TURNAROUND IN CURRENT ACCOUNT, WHICH ENDED FY74 \$A707 MILLION IN DEFICIT COMPARED TO \$A665 MILLION SURPLUS IN FY73. THIS IN TURN LARGELY ATTRIBUTABLE TO FALL IN MERCHANDISE BALANCE TO \$A1,022 SURPLUS FROM FY73 RECORD LEVEL OF \$A2,187 MILLION. REMAINDER OF CHANGE DUE TO \$A207 MILLION RISE IN NET INVISIBLES DEFICIT AND FALL IN NET APPARENT CAPITAL INFLOW TO \$28 MILLION DURING FY74 FROM \$A317 MILLION DURING FY73. TOTAL VALUES OF BOTH EXPORTS AND IMPORTS WERE AT RECORD LEVELS BUT RATE OF INCREASE IN IMPORTS (51 PCT.) WAS FOUR TIMES THAT OF EXPORTS (13 PCT.)

3. COMMENT: FY 74 BOP TURNAROUND OF COURSE POSES NO IMMEDIATE THREAT TO LARGE OFFICIAL RESERVES, AND INDEED RESULTED FROM DELIBERATE GOA POLICE STEPS DURING YEAR TO REDUCE THIS EMBARRASSMENT OF RICHES (TARRIFF CUTS, REVALUATIONS). IT CAN BE EXPECTED TO GIVE RISE, HOWEVER, TO RENEWED DEMANDS FROM MANUFACTURERS, EXPORTERS AND POLITICAL OPPOSITION FOR POLICY CHANGES TO STOP "DETERIORATION" OF BOP AND "THREAT" TO RESERVES. IN VIEW OF MAGNITUDE OF SWING RECORDED DURING YEAR AND LAGS INVOLVED IN MOVES TO SLOW TREND NOW ESTABLISHED, TEASURY IN FACT UNDOUBTEDLY HAS EVENTUAL POLICY CHANGES UNDER CONSIDERATION. SPECULATION CENTERS AROUND POSSIBLE EASING OF VARIABLE DEPOSIT REQUIREMENT ON LONG TERM OVERSEAS BORROWING. BUT THIS AND OTHER MEASURES TO SAME END ALSO INFLATIONARY IN EFFECT AND WOULD, IT SEEMS TO US, BE TAKEN WITH GREATEST RELUCTANCE IN PRESENT CLIMATE OF EXTREME CONCERN OVER ACCELERATING INFLATION. WE WOULD THEREFORE EXPECT GOA TO MOVE IN SMALL, CAREFUL STEPS IF AT ALL (AS IT HAS RECENTLY FOR EXAMPLE, IN RELEASING TRADING BANKS' STATUTORY RESERVES) IN RESPONSE TO THIS NEW TREND IN EXTERNAL ACCOUNTS.
HARROP

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